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# Inflation, slowing global growth to weigh on India's IIP; recovery in domestic demand to be positive trigger

*As global growth weakens amid uncertainty due to high inflation and volatile commodity prices, the recovery in domestic demand will remain the key driver of industrial output going forward*

Written by [Harshita Tyagi](#)

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India's IIP growth slowed further in July to 2.4%, lowest in four months, as the favourable base effect has waned

India's IIP growth slowed further in July to 2.4%, lowest in four months, as the favourable base effect has waned. The low Index of Industrial Production (IIP) data came as double whammy for the economy as retail inflation in the month of August reversed downtrend to rise to 7% again. "Low IIP could be a function of the base effect. The contraction of the non-durable goods index indicates that rural households are under stress and demand is getting impacted," said Rumki Majumdar, Economist, Deloitte India. As global growth weakens amid uncertainty due to high inflation and volatile commodity prices, the recovery in domestic demand will remain the key driver of industrial output going forward, according to economists.

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## Slowing global growth to weigh on IIP

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According to analysts at Edelweiss Securities, IIPs weak level in July is in tune with the softness seen in other high-frequency real indicators such as railway freight (ex-coal), port traffic and electricity consumption. “Although the uptick in capital goods is encouraging and services’ unlocking could perk up demand in some lower-income segments, a slowing global economy would weigh on India’s exports—the key driver of recovery,” they said. Forward-looking indicators of the global economy such as global money supply, PMI new orders, US yield curve, US home sales, credit spreads, all point towards a further slowdown in the global economy, they added. The [RBI](#) too is raising rates and tightening liquidity, implying downside risks to the domestic economy. Thus, industrial activity is expected to continue being weak.

### **Strong recovery in domestic demand to be key support for industrial output**

While base effects played a major role, industrial production also contracted on a sequential basis in July. As global growth weakens, the recovery in domestic demand will remain the key driver of industrial output, said Rahul Bajoria, MD & Chief India Economist, Barclays. “While supply disruptions are slowly easing, the weakening global growth outlook could weigh on India’s export orders, impacting industrial output over the coming months. Instead, a strong recovery in domestic demand will remain a key source of support for India’s industrial output in the coming months,” Bajoria said. July industrial production provides early evidence of weakening manufacturing momentum. However, Barclays believes that MPC will remain focused on controlling inflation, which remains elevated.

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### **Inflation, volatile commodity prices, global growth slowdown to be major challenges for industrial activity momentum**

According to [Care Ratings](#), though the IIP showed improvement over the pre-pandemic period, the improvement is yet to be broad-based. The weakness in

the manufacturing and consumer goods segment appears concerning. "Going ahead, the consumption impulses in the economy could improve with the commencement of festive season. However, elevated domestic inflation, volatility in commodity prices and global growth slowdown could be the major challenges for the momentum in industrial activity," it said.

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